REVENUE FORECAST

The Commonwealth's total revenue consists of two types of resources: the general fund and nongeneral funds. About half of state revenues are "nongeneral funds," or funds earmarked by law for specific purposes. For example: motor vehicle sales and motor fuel taxes are earmarked by law for transportation programs; students' tuition and other fees support higher education, and federal grants are designated for specific activities.

General fund revenues are derived from general taxes paid by citizens and businesses in Virginia. Since general fund revenue is not dedicated to any particular purpose and can be used for a variety of government programs, these are the funds that the Governor and the General Assembly have the most discretion to spend.

General fund revenues can primarily be attributed to five major revenue sources. The two largest sources are the individual income tax and the sales and use tax. Other major revenue sources are corporate income taxes, wills, suits, deeds, and contract fees, and taxes on insurance company premiums. Miscellaneous taxes and other revenues also contribute to the general fund.

FY 2013 revenue collections post solid gain

In FY 2013, total general fund revenues finished the year with a surplus and were 5.7 percent above the previous peak year of 2008. Total general fund revenues grew 5.3 percent to $16,684.6 million, exceeding the official forecast of 3.6 percent growth by $263.6 million. Adjusting for the accelerated sales tax program, total revenues grew by 5.1 percent, ahead of the economic-base forecast of 3.4 percent growth. The total general fund, including revenues and transfers, exceeded the official forecast by $264.3 million.

Strong collections in individual nonwithholding payments and recordation taxes accounted for the bulk of the surplus in FY 2013. Individual nonwithholding collections were $290.1 million ahead of the forecast, recordation tax receipts had a surplus of $41.0 million, and taxes on premiums of insurance companies had a $6.6 million surplus. In addition, payments of individual refunds were $72.2 million below forecast. Payroll withholding and sales tax collections, 83 percent of total revenues and closely related to economic activity, fell short of the forecast by $144.0 million. Collections of corporate income taxes came in $24.2 million below the forecast. Collectively, the five major sources ended the year $241.8 million above the forecast. Collections of miscellaneous taxes and other revenues were $21.8 million ahead of the forecast in FY 2013.

General fund revenues expected to show moderate growth over the forecast horizon

The general fund revenue forecast for FY 2014 through 2016 includes slightly below-trend growth that appears to be the new norm for Virginia's economy. In particular, the slow rate of job growth over the next three years and federal sequestration are expected to constrain growth in general fund revenue collections.

Growth of total general fund revenues (excluding transfers) of 1.7 percent in FY 2014 reflects not only the aforementioned sluggish job growth and cuts in federal spending but also the transfer of general funds to transportation and education, as stipulated in HB2313 (2013). Revenue growth of 4.2 percent, and 3.9 percent for FY 2015 and FY 2016, respectively, illustrate the lack of robust growth in this economic recovery.

General Fund Forecast for FY 2012 - FY 2014*

	Actual FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
Corporate income	$796.7	$799.9	$816.6	$822.7
Individual income	11,340.0	11,762.4	12,359.0	12,932.7
Insurance premiums	262.2	289.4	290.9	303.1
State sales & uses	3,219.8	3,079.4	3,175.7	3,256.7
Wills, suits, deeds & contract fees	377.5	377.5	377.5	377.5
Miscellaneous	688.4	662.3	666.3	680.6
Total revenues	**$16,684.6**	**$16,970.9**	**$17,686.1**	**$18,373.3**
ABC profits	$68.0	$70.6	$70.8	$71.0
Sales Tax (0.25%)	221.4	334.7	348.9	361.1
Transfers per the Appropriations Act	135.2	117.5	117.8	103.3
Total transfers	**$424.6**	**$522.8**	**$537.5**	**$535.4**
Total general fund	**$17,109.2**	**$17,493.7**	**$18,223.6**	**$18,908.7**

*Dollars in millions. Excludes balances available for appropriation. Figures may not add due to rounding. Source: Virginia Department of Taxation.

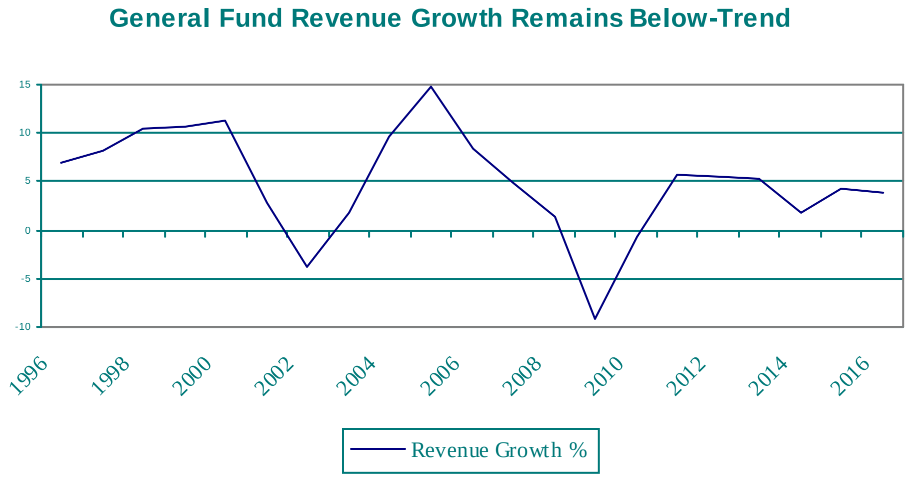
Forecast for the Major General Fund Revenue Sources

For each of the major categories of general fund revenue, the following describes the actual performance in FY 2013 and the estimate over the forecast horizon.

Individual income taxes

Collections of net individual income taxes (68 percent of total revenues) grew 6.9 percent in fiscal year 2013, ahead of the annual forecast of 4.5 percent growth. Receipts of $11,340.0 million exceeded the official estimate by $247.4 million, a variance of 2.2 percent from the forecast. The surplus resulted from better-than-expected receipts in individual nonwithholding, and a decline in refunds.

Individual income tax collections are expected to post moderate gains over the next three fiscal years, growing by 3.7 percent, 5.1 percent, and 4.6 percent, respectively.



Sales and use taxes

Collections of sales and use taxes (20 percent of total revenues) were $3,219.8 million in FY 2013, $29.0 million below the forecast, a forecast variance of 0.9 percent. Collections grew 3.1 percent for the year compared with the forecast of 4.1 percent growth. Adjusting for accelerated sales tax payments received in June, sales tax collections grew 2.1 percent in FY 2013, compared with the economic-base forecast of a 3.2 percent increase. Monthly growth rates were below the annual forecast in 9 out of the 12 months as Virginia consumers have shown restraint in the face of sequestration and federal government layoffs.

Sales tax collections are expected to decline by 4.4 percent in FY 2014, mainly due to provisions in Chapter 806 (2013). Growth in FY 2015 and FY 2016 is expected to be 3.1 percent and 2.6 percent, respectively.

Corporate income taxes

Corporate income tax collections (5 percent of total revenues), historically the most volatile revenue source, fell short of the forecast. Collections of $796.7 million were $24.2 million below expectations, a forecast variance of 2.9 percent. A decline of 7.3 percent trailed the forecast of a 4.5 percent decline.

The corporate revenue model considers gross payments and refunds separately. Gross payments are modeled as a function of Virginia specific pre-tax corporate profits and the S&P 500 index. Refunds are driven by the historic ratio of gross payments to refund activity. Corporate income tax collections in the forecast are expected to increase by 0.4 percent in FY 2014. In FY 2015 and FY 2016, collections are expected to increase by 2.1 percent and 0.7 percent, respectively.

Insurance company premiums taxes

Collections of taxes on the premiums of insurance companies (2 percent of total revenues) were $262.2 million in FY 2013 - $6.6 million above the annual estimate. Growth in the commercial real estate market and improving home values led to a rebound in insurance premiums tax collections.

The forecast for insurance premiums is for growth of 10.4 percent, 0.5 percent, and 4.2 percent, respectively over the next three fiscal years.

Wills, suits, deeds & contract fees

Wills, suits, deeds, and contract fees (2 percent of total revenues), of which the primary component is the recordation tax, were well ahead of the forecast in FY 2013. Driven by the recovering housing market and low interest rates, receipts in this source exceeded expectations by $41.0 million, a variance of 12.2 percent. Collections finished the year at $377.5 million, a 17.2 percent increase from FY 2012 and ahead of the official forecast of 4.5 percent growth.

The revenue model for wills, suits, deeds and contracts is based on refinancing activity and median home prices in Virginia, along with the yield on 30-year treasury bonds. The outlook for recordation taxes drives the other components of this source. The housing market has stabilized but increases in mortgage rates have constrained refinancing activity; therefore, the forecast cautiously predicts flat growth over the next three fiscal years.

Over half, 62.0 percent, of state revenue is nongeneral fund revenue

Although most public attention is focused on general fund revenue, over one-half of all revenue in the state budget is nongeneral funds that are earmarked by law for specific purposes.

Nongeneral fund revenue collections increased by 1.1 percent in 2013, and are expected to increase by 26.0 percent in 2014, 3.7 percent in 2015 and 2.8 percent in 2016. Nongeneral funds are 62 percent of total state revenue during the 2014-2016 biennium.

Federal grants and other contracts

Federal grants are the largest single source of nongeneral fund revenue, about 36.3 percent of the total. Frequently these grants do not come to the state as simple cash transfers. The federal government mandates many program requirements as conditions of the grants and often, states must provide matching funds. The Medicaid program for indigent health care is an example of a federal entitlement program that requires a state contribution.

In 2013, federal grants and other contracts totaled $9.2 billion. This source is projected to increase by 0.5 percent to $9.3 billion in 2014, and increase further by 1.7 percent in 2015 to $9.4 billion and increase by 2.5 percent in 2016 to $9.7 billion.

Institutional revenue

The second largest class of nongeneral fund revenue is institutional revenue. The principle sources of this revenue are patient fees at teaching hospitals and mental health institutions as well as tuition and fees paid by students at institutions of higher education. In 2014, institutional revenue collections are expected to be $6.4 billion or about 25.6 percent of all nongeneral fund revenue. Institutional revenues are projected to grow to $6.8 billion in 2015 and to $7.1 billion in 2016. Overall institutional revenues are projected to be 26.3 percent of all nongeneral fund revenues over the 2014-2016 biennium. These growth rates reflect the higher cost of services provided by these institutions.

Transportation Fund

Total transportation revenues (state taxes and fees) totaled close to $2.5 billion, an increase of $55.9 million over last year. Revenue collections grew by 2.3 percent as compared to the official forecast of a 2.8 percent increase, resulting in a forecast variance of -0.5 percent.

The 2013 revenue collections increased by 2.3 percent. The surplus in the 2013 collections can be attributed to continued growth in motor vehicle sales, and subsequently, the vehicle sales tax, Recordation Tax receipts and miscellaneous revenues.

During the 2007 session of the General Assembly, legislation was passed that provided a considerable influx of new revenues into the Commonwealth Transportation Fund. Motor Vehicle license fees, motor fuels taxes and miscellaneous revenues reflect these adjustments. Beginning in FY 2009, one third of the insurance premiums tax and three cents of the twenty-five cent recordation tax is deposited to the Commonwealth Transportation Fund. The 2013 Session of the General Assembly passed House Bill 2313 (Chapter 766) which provided a considerable influx of new revenues into the Commonwealth Transportation Fund. Included in the bill was the elimination of the $0.175 per gallon tax on motor fuels, and replaces it with a percentage-based tax of 3.5 percent for gasoline and a 6 percent tax on diesel fuel. The bill also raises the state sales and use tax from 4 percent to 4.3 percent the increased revenue dedicated to the Transportation Fund. The bill also increases the share of the existing general sales and use tax revenues used for transportation from 0.5 percent to 0.675 percent phased in over four years. Finally the bill amended the tax on the sale of motor vehicles (the "titling tax"). Currently the tax is 3 percent. The new rate of 4.15 percent will be phased in over four years.

Forecasts for revenue collections in fiscal years 2014 are expected to decline, 2015 and 2016 are expected to increase. For 2014 through 2016, total fund revenues from state sources are expected to be $2.8 billion in 2014, $3.1 billion in 2015, and $3.3 billion in 2016.

Unemployment insurance fund

Unemployment insurance tax collections rise and fall with trends in the economy.

Projected collections are expected to decrease in 2014 through 2016 reflecting decreases in the four?year moving average of benefit charges and in the pool tax rate. The current estimate anticipates decreases in the pool taxes of 0.25 percent, 0.23 and 0.22 percent for calendar years 2014-2016, respectively. A fund building tax is imposed in calendar years 2014-2016. For 2014, unemployment tax collections are expected to increase to $793.0 million, while 2015 collections are expected to decline to $779.8 million and decline to $664.9 million in 2016.

Master Tobacco Settlement Agreement funds

The Master Settlement Agreement (MSA) was signed between the major participating cigarette manufacturers and 45 states, the District of Columbia, and five United States' territories on November 23, 1998. The settlement agreement releases participating manufacturers from past, present, and future smoking-related claims of the states in return for an annual cash payment to the states in perpetuity. These payments are to be adjusted over time for several factors, including inflation and changes in volume of domestic cigarette shipments.

The Commonwealth's plan for the use of MSA funds has three elements. First, legislation passed by the 1999 General Assembly (Chapter 880, 1999 Acts of Assembly) earmarked 60 percent of the allocation in two separate trust funds. The Tobacco Indemnification and Community Revitalization Fund receives 50 percent of the MSA allocation. This share is used to compensate tobacco growers and tobacco quota holders for the economic loss resulting from quota loss or elimination and to promote economic growth and development in tobacco?dependent communities in the Southside and Southwest regions of the state. Recently, the annual amount received by this Fund was securitized and turned into an endowment. Thus, the Fund now receives earnings on this endowment.

The Virginia Tobacco Settlement Fund receives the next 8.5 percent of the MSA allocation for the purposes of preventing tobacco use by minors and reducing childhood obesity. Programs targeted at minors include but are not limited educational and awareness programs.

The final portion of the allocation (41.5 percent) goes to the Virginia Health Care Fund. This Fund can be used to pay for various health care costs faced by the Commonwealth, including the Medicaid program for indigent health care.

For FY 2014, FY 2015, and FY 2016, it is anticipated that the Tobacco Indemnification and Community Revitalization Fund may expend up to 10.0 percent of the endowment an amount estimated at $70.3 million each year. The indemnification from the Virginia Tobacco Settlement Fund is anticipated to take in $9.5 million, in 2014, $9.3 million in 2015 and $9.3 million in 2016. The Virginia Health Care Fund will receive $48.6 million in 2014, $48.0 million in 2015 and $48.0 million in 2016.

Nongeneral fund forecast for 2012-2014 biennium chart is on the following page.

Nongeneral fund forecast for the 2012-2014 biennium*

	Actual FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
Motor vehicle fuel tax	$879.3	$644.8	$758.2	$883.3
Unemployment compensation payroll tax	$733.4	$793.0	$779.8	$664.9
Special highway tax from sales tax	$521.2	$847.2	$890.2	$917.0
Motor vehicle sales tax and use tax	$589.4	$832.9	$875.2	$900.2
Other taxes	$1,235.7	$1,600.9	$1,674.5	$1,697.9
Rights and privileges	$999.5	$1,063.9	$1,097.7	$1,104.3
Sale of property and commodities	$1,099.6	$1,247.3	$1,254.6	$1,302.0
Assessment & receipts for special services	$204.5	$227.9	$233.3	$236.2
Institutional revenue**	$2,414.8	$6,452.8	$6,819.2	$7,144.7
Interest dividents and rents	$229.2	$173.1	$193.1	$214.3
Federal grants and contracts	$9,426.8	$9,462.8	$9,623.6	$9,855.8
Master Tobacco Settlement Agreement Funds	$88.5	$128.8	$128.3	$127.7
Other Revenue	$15,541	$1,734.3	$1,811.2	$1,830.0
Total	**$20,002.9**	**$25,209.6**	**$26,138.9**	**$26,878.1**

*Based on December 2013 forecast. Dollars in millions. Figures may not add due to rounding. Total excludes balances and bond proceeds available for appropriation, as well as Literary Fund transactions, and internal service funds. Source: Department of Planning and Budget, based on data submitted by agencies.

**Per the Management Agreement between the tier 3 schools and the Commonwealth as set forth in Chapters 933 and 943 of the 2006 Acts of Assembly, the tier 3 schools are not required to report actual revenue collections in CARS.